ELECTROHOME

ANNUAL REPORT 1975

ELECTROHOME Limited

Board of Directors
D.S. Sykes, *Chairman*
C.A. Pollock, *Honorary Chairman*
W.A. Bean
H.W. Main
Mrs. C.A. Pollock
J.A. Pollock
D.R. Steele

Officers
D.S. Sykes, *Chairman, and Chief Financial Officer*
C.A. Pollock, *Honorary Chairman*
J.A. Pollock, *President*
H.W. Main, *Executive Vice-President, ELECTROHOME Limited and Chairman of the Board of Directors, Central Ontario Television Limited*
H.I. Eby, *Secretary-Treasurer*

Executive Committee
D.S. Sykes, *Chairman*
H.W. Main
C.A. Pollock
J.A. Pollock

Transfer Agents
Common Shares
Montreal Trust Company, Toronto, Montreal, Winnipeg
Preference Shares
National Trust Company, Limited, Toronto, Montreal, Winnipeg, Vancouver

Solicitors
Clement, Eastman, Dreger, Martin & Meunier, Kitchener, Ontario

Auditors
Thorne Riddell & Co.
Kitchener, Ontario

Electrohome General Managers
W.M. Alguire, *Director, Corporate Systems and Control Division*
L.A. Annett, *Director, Corporate Planning and Development Division*
H.I. Eby, *Secretary-Treasurer and Director, Finance Division*
R.A. Flanagan, *General Manager, Motor Division* *
R.W. Johnson, *General Manager, Appliance Division*
H.H. LaPier, *Group General Manager, Electronics Division, Service Division and Electrohome Malaysia*
M.G. Monteith, *Director, Human Resources Division*
H.J. Ruetz, *General Manager, Deilcraft Division*

Subsidiary Companies
S.M. Douglas, *President and General Manager,* Flexsteel Industries (Canada) Ltd.
D.H. Johnston, *President and General Manager,* Electrohome (Malaysia) Sdn. Bhd.
H.W. Main, *President,* Electrohome Communications Limited
W.D. McGregor, *President and General Manager,* Central Ontario Television Limited
J.A. Pollock, *President,* Electrohome (U.S.A.) Limited
H.J. Ruetz, *President,* Hawkesville Lumber Limited

*Name changed to Industrial Products Division

ELECTROHOME Limited

HIGHLIGHTS	1975	1974
Sales	**$87,545,000**	$107,057,000
Net income (loss)	**(3,481,000)**	147,000
Earnings (loss) per Class A and Class B share*	**(1.20)**	.02
Income taxes (reduction)	**(1,334,000)**	462,000
Depreciation	**1,919,000**	1,708,000
Working capital	**5,792,000**	12,099,000
Fixed assets (net)	**19,271,000**	18,977,000
Long term debt	**8,385,000**	9,118,000
Shareholders' equity	**18,597,000**	22,192,000
Number of employees (average)	**2,938**	3,900

* *After allowance for preference dividends paid.*

Contents

REPORT TO SHAREHOLDERS

The year 1975, representing Electrohome's 68th year of operation, was one of the most difficult your company has encountered in the post-war period. Despite the continued unfavourable economic climate in many sectors in the country, a gradual turnaround in the company's operations did occur in the fourth quarter. This improvement provides a degree of optimism for slow but steady progress in the coming year.

In coping with the numerous problems which occurred during 1975, it was encouraging to witness the teamwork and co-operation displayed at all levels of the company. In conjunction with the guidance and counsel provided by the Board of Directors, your management acted to bring all areas of the operation back into step with the challenges and opportunities in the marketplace. Your directors and officers were equally impressed with the sense of responsibility demonstrated by line and staff personnel and union members alike in the manner in which each recognized and adjusted to the new levels of business activity.

There was a keen sense of appreciation as well as dedication shown by our loyal business associates including dealers, distributors, suppliers and bankers, to assist management in overcoming shorter term problems. It was the combined efforts of all which produced the economic improvement achieved in the last quarter of 1975 and which we plan to sustain in 1976.

Financial Review

Consolidated sales for the year amounted to $87,545,000 compared to $107,057,000 in 1974, a decline of 18%. A net loss of $3,481,000 was recorded while in the previous year there was a net profit of $147,000. On a per-share basis, this represents a loss of $1.20 in 1975 compared to a profit of two cents in 1974.

The income tax treatment on the statements is explained in more detail in the notes to the balance sheet. The actual consolidated tax recovery amounted to 28% of the pre-tax net loss. Where losses occurred, tax loss recoveries were taken only to the extent of actual taxes recoverable in the year, or applied to reduce deferred income taxes to the extent available.

As noted in our interim report of January 14, 1976, a turnaround in operations took place in the last quarter of 1975. On a quarterly basis, the pre-tax net profit or loss presents a more valid comparison. In the final quarter, sales were $25,553,000 compared to $26,608,000 in the previous year, a drop of 4%. Operating results, on the other hand, showed a pre-tax profit of $483,000 compared to a pre-tax loss of $874,000 for the last quarter of 1974, a turnaround of $1,357,000 on a somewhat lower sales volume.

This turnaround was due in part to a somewhat improved economy but the main reason can be attributed to the results of management actions, such as vigorous cost-cutting activities and organizational changes and the re-allocation of product mix to adjust to market conditions.

During the year, capital expenditures amounted to $2,280,000 compared to $5,325,000 in 1974. A major portion of these purchases in 1975 was accounted for by the expansion of our broadcasting facilities, including improved AM facilities, a new TV transmitter in Wallaceburg (Channel 42), plus an additional TV transmitter at Huntsville (Channel 11). Capital equipment expenditures in other areas were kept to an absolute minimum.

The losses sustained in 1975 contributed to the consolidated working capital being below the requirements as set out in the Trust Deed. In addition, the bank borrowings also slightly exceeded the limits of the debenture. The company's position, as it applies to the aforementioned, is covered in note 4 to the financial statement. As mentioned in our statement of January 14, 1976 to the shareholders, there has been no default in payment under the debenture and none is contemplated.

The outlook for the corporation for 1976 continues to show improvement. The program to reduce costs and bring into effect other efficiencies is continuing. Emphasis is being placed on Appliances, Motors and Home Furnishings which show considerable promise and long-term potential. In Electronics, the total industry is becoming more dependent on imported product, including in Electrohome's case sub-assemblies from our subsidiary in Malaysia where the lower costs of manufacturing provide greater opportunities for us to compete with imports. As this change applies particularly to consumer electronics products, our domestic electronics manufacturing facilities are moving to expand our activities in other specialized electronic commercial and contract areas. Continued growth in the Consumer

Service operations where product support is fully appreciated by the end customer and in broadcasting where there is a growing awareness to our market coverage, continued expansion seems assured.

With respect to the general economic climate, we are predicting a comparatively flat economy for the year and have made our plans accordingly. We believe the anti-inflation regulations will be reasonably effective in bringing down the rate of inflation but there are a number of other adverse situations, including the high level of imports, increasing interest rates, wage rates higher than comparable industries in the U.S.A., and the value of the Canadian dollar, all of which tend to increase unemployment levels and act as a drag on the economy. It is our belief that more positive long-term fiscal policies at governmental levels, together with a more stable international climate, are required before there can be a major improvement in the national scene.

Operations Review

All divisions and subsidiaries of Electrohome felt the impact of the slowdown in the economy which began in the closing weeks of 1974 and continued for most of 1975. While the softening of sales in the consumer durable area had a major impact on our results, most of these problems were not unique to Electrohome. Our past decisions, however, to diversify our consumer and commercial product offerings as well as increasing emphasis on our participation in the service industry were of considerable benefit. For 1976, a gradual strengthening should result and we are optimistic that meaningful gains will be made by all divisions.

The past year was one of extreme difficulty for the **Electronics Division** and Canada's home entertainment industry as a whole. Color television, the division's most important product, faced a soft economy, greater market saturation, and the dumping of product from the United States and the Far East. Unfortunately, there was very little positive government action to correct the latter situation and this very serious problem still remains. The fact that effective anti-dumping legislation was not enacted is a real disappointment. On the positive side, by year-end our inventories were again in balance, our quality at an all-time high, and our new high performance chassis, the C-30, had been successfully launched. These factors will enhance our competitive position for 1976.

Hi-fi consoles faced similar market problems. Again, new designs were added and inventories reduced. In 1976 a new "Classic" series is being developed which will further strengthen our historic position of leadership in this market. Our new domestically made audiophile components (PLANAR) were launched in 1975 and, while moderately successful, competition from the Far East buffeted our entry into this field. The parallel introduction of a second line of purchased Electrohome/Acoustech components has helped to broaden our offerings and opportunities in this total market.

In 1975 consumer black and white television disappeared from our manufacturing program. To provide this product range to Electrohome dealers, we purchased a 12-inch unit from the Far East and added a 20-inch design in March, 1976.

The commercial electronics group in 1975 continued to aggressively market their educational hotel/motel and monitor television products in Canada, the U.S. and Europe. Although these areas showed a parallel softening to that experienced in the consumer field, our sales and market penetration continued to reflect our growing strength in this specialized area.

New black and white and color monitors will be introduced in 1976 which will further enhance the company's position in this sophisticated television market.

In the engineering and manufacturing areas, despite a number of problems associated with the introduction of new products and under-utilized facilities, new opportunities were pursued in the contract area that assisted in 1975 and will provide an ongoing opportunity for the future. Engineering and marketing programs are currently underway in the projection television, pay TV, converters and mid-band tuner fields, plus a number of other areas which could be meaningful in 1976. These potentials plus a number of other new product and marketing programs in the consumer and commercial areas should result in the Electronics Division showing a major improvement in 1976.

The growth of **Electrohome (Malaysia) Sdn. Bhd.** in 1975 was not as rapid as forecast due to the reduced economic conditions in Canada. Start-up costs and low production levels created a loss position. Shipments did increase in the latter half and four sub-assemblies were

added to the production flow establishing a substantially improved base for operations in 1976.

Similarly, the **Deilcraft Home Furnishings Division** experienced a difficult year plagued by conditions that developed in the last quarter of 1974, when a solid "back order" position evaporated as United States manufacturers attempted to liquidate their large inventories in Canada.

Our inventories of raw material, work in process and finished goods rose and were out of balance at the start of 1975. This necessitated a brief shut-down at most operations plus the lowering of prices in an attempt to keep facilities operational including our new 265,000 square foot plant in Stellarton, Nova Scotia, which ran throughout the year well below capacity. Although many of 1975's problems will continue, we are confident that the numerous adjustments made during the past year will result in a greatly improved 1976.

To sustain factory loading, significant contract sales have been developed. To date, this program is proceeding according to forecast. This year's January Furniture Mart in Toronto was the most successful in Deilcraft's history with special emphasis being placed on the introduction of a new broad range of solid maple furniture. With these and numerous other changes, we look for a general strengthening in this important area of our business.

The same adverse conditions in 1975 which plagued Deilcraft also created operating losses at our subsidiary, **Flexsteel Industries (Canada) Ltd.** A drop-off in "Fairfield" chair sales influenced the decision to stop manufacturing this product and concentrate completely on the broad range of Flexsteel upholstered product. For 1976 all production facilities have been consolidated in our modern, one-storey plant in Stratford. The previously occupied building is being offered for sale. In total, meaningful progress is now underway and the results for 1976, as indicated by the very strong dealer interest at the January Furniture Mart, should see a return to a more positive position.

The economic turndown also created substantial losses at the **Motor Division**. Order cancellations from O.E.M. customers plus the phase-out of unprofitable lines kept sales below forecast. Early in the year, cancelled orders added to material surpluses and left considerable unabsorbed overhead costs which forced employment cutbacks. At the same time, many positives emerged which places this division in a much better position for 1976. Improved year-end inventory levels, efficient use of new equipment and the development of expanded export markets should all have a positive impact. New "packaged" products, including DC fans and rear-window defoggers, were introduced which, when coupled with improved markets, should see a turnaround in the coming year. Negotiations were also completed for the manufacture and sale of a new range of motors using a long-life unit bearing system developed by the Airtrol Corporation in Rockton, Illinois. These products will be manufactured here and marketed by Electrohome in Canada and in all remaining international markets, excluding the U.S.A.

As of January 1, 1976, responsibility for the company's plastics operation was moved to the Motor Division. This change presents opportunities for both product groups and when the consolidating moves are completed, significant operating efficiencies will result within the Cambridge plant. Although the use of plastics will be curtailed within the furniture industry during the coming year, some new and exciting applications in the kitchen cupboard door, recreational vehicle and structural urethane plastics fields should all provide expanded opportunities.

More positively, the **Appliance Division** registered sales and profit gains in 1975 and a continuation of this trend is forecast. Electrohome brand sales in the home comfort area in general were excellent; however, a warm fall did have a negative impact on our humidifier line. New product introductions in the air purifier, electronic bug killer and other home comfort areas, plus continuing efforts in cost improvement, should enhance the division's overall position for 1976.

Significant growth is also recorded by the **Consumer Service Division.** New facilities were opened in Kingston, Barrie, Peterborough, Mississauga and London, Ontario, as well as Langley, B.C. and Niagara Falls, N.Y. Most branches are now equipped and staff trained to service all company products plus the sale and service of other associated items. In addition, the division is working on the development of service business from outside complementary areas. The introduction of a new on-line computerized inventory control system and a number of new and aggressive marketing programs should result in a

continuation of the excellent progress that this division has made in recent years.

The **Finance Division** faced a number of areas of adjustment to attempt to balance their operation with 1975 operating conditions. The year's results with its negative impact on working capital and the need for additional financing compounded this situation. Although overall dollars in the accounts payable and receivable areas decreased, the complexity of transactions remained. In looking ahead, these areas will be assisted by the further computerization of many operations in 1976 which should result in significant savings. The extended postal strike also aggravated the Credit Department's operation, while Distribution Services worked with some difficulty in adjusting to the requirements of the marketplace.

The **Corporate Systems and Control Division** successfully integrated Internal Audit, Corporate Accounting and Budget Control into the Comptroller's Department. Tax administration effectively provided some notable savings and an extensive study on federal sales tax was prepared for presentation to the Provincial and Federal Governments. In the Management Information Systems area, all programs for our older U1050 computer will be converted to our twinned systems U9400 with completion in 1976 which should yield significant cost benefits.

Six new union contracts were negotiated by the **Human Resources Division** in 1975. The Kitchener contract, covering the largest number of employees, was a two-year agreement. A total of seven contracts in a like number of locales are to be negotiated in 1976. Although wage and price control regulations followed the signing of these agreements, we believe that the company's compensation plans are in a satisfactory position relative to the new federal guidelines. Salary structures were also revised in late 1975.

Development programs continued to receive emphasis in keeping with our objectives to improve and strengthen management at all levels. In 1976 programs will be added for senior management and marketing personnel.

Marketing research highlighted activities in the **Corporate Planning and Development Division** with over eighty projects handled for corporate and operating divisions. A special study concerning future consumer and market patterns was completed. Also, government liaison increased, especially for programs such as I.R.A.P., P.A.I.T., and I.R.D.I.A.

A natural extension of this type of government assistance is our specialized technological development in the Reverse Osmosis field which is now reaching the production stage following three years of development. A number of pilot plant installations have been sold and this division is expected to be in regular production in 1976.

In the field of broadcasting and video production, **Central Ontario Television Limited** reported improved revenues in all operating areas. To start 1975, Central Ontario had three projects in process: the CKKW-AM switch from 1320 to the 1090 position on the dial with increased power; the new Sarnia/Chatham Channel 42 television satellite; and a new headquarters building. The first two projects were successfully completed in February and November and a suitable site for a future new facility was acquired. Channel 11, a third television satellite near Huntsville, also came on the air in February, 1976.

All stations witnessed programming modifications. CKKW-AM had a gradual change in anticipation of the 1090 switch with its increased power. Its audiences were also expanded significantly as the new coverage through added power and frequency change gained market acceptance. CFCA-FM improved its broadcasting pattern in keeping with the CRTC policy guidelines from which an enlarged audience has resulted. CKCO-TV is following international trends to more family-oriented programming which, along with the added coverage, has improved our market position even though we face increased competition in our traditional markets.

For 1976 we are forecasting increased sales plus improved revenues which should result in this being the best year in our broadcasting operation's history.

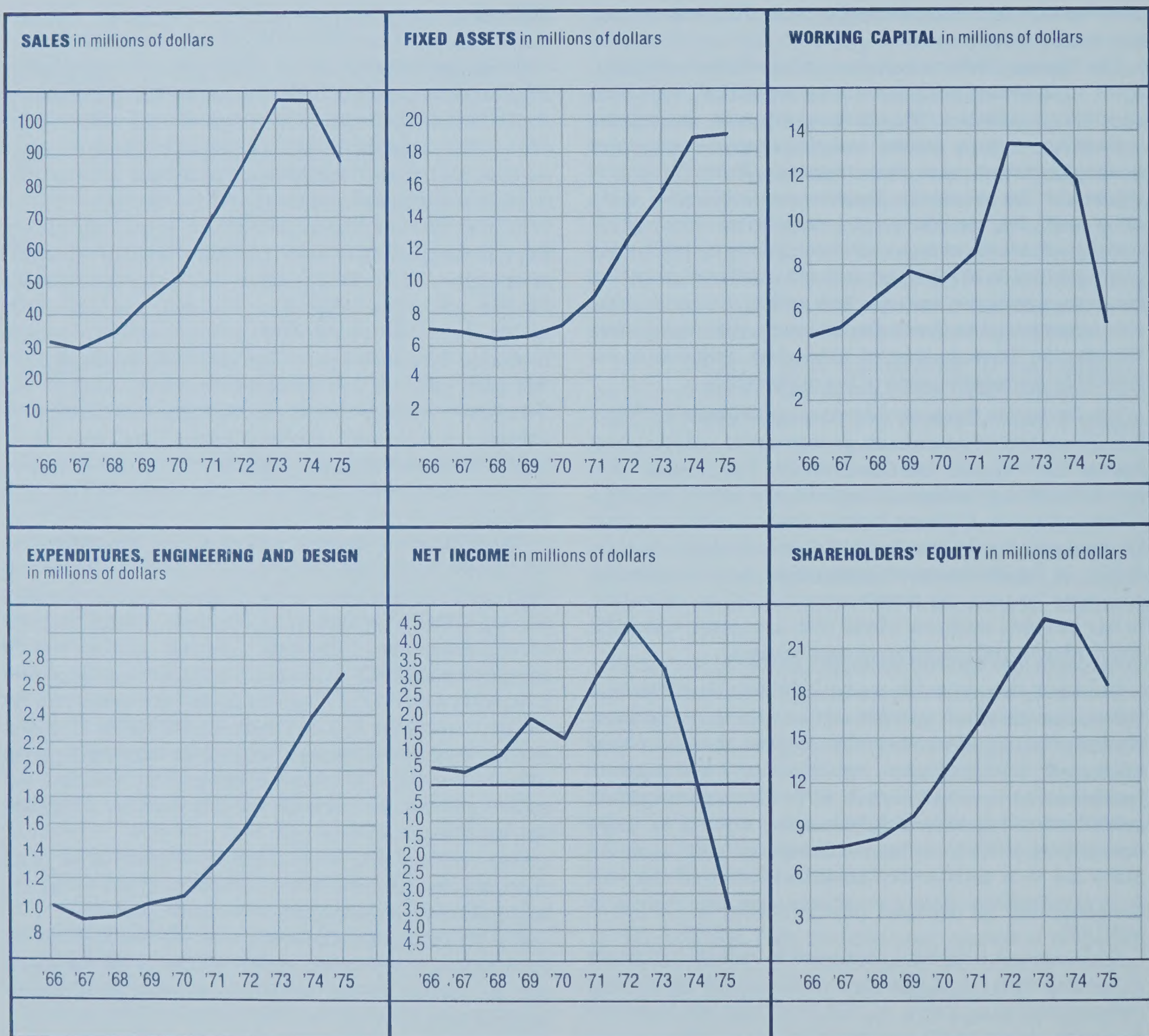
Your directors are confident that the positive trends documented in this review reflect optimism for the future and we appreciate the continuing support of all shareholders.

April 8, 1976

D S Sykes
Chairman of the Board

President

STATISTICAL CHARTS



CONSOLIDATED STATEMENT OF INCOME

	Dec. 26 1975	Year ended Dec. 27 1974
	(in thousands)	
Sales	**$87,545**	$107,057
Cost of sales, selling, administrative and financial expenses	**87,353**	101,472
Income before undernoted items	**192**	5,585
Depreciation	**1,919**	1,708
Interest on long term debt	**601**	660
Other interest	**2,405**	2,526
Amortization of intangible assets	**82**	82
	5,007	4,976
Income (loss) before income tax	**(4,815)**	609
Income taxes (note 6)		
Current (recoverable)	**433**	(303)
Deferred (reduction)	**(1,767)**	765
	(1,334)	462
Net income (loss)	**$(3,481)**	$ 147
Earnings (loss) per share	**$(1.20)**	$ .02

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Dec. 26 1975	Year ended Dec. 27 1974
	(in thousands)	
Balance at beginning of year	**$16,830**	$17,211
Net income (loss)	**(3,481)**	147
Discounts on purchase for cancellation of preference shares	**14**	12
	13,363	17,370
Dividends on		
Preference shares	**88**	91
Class A shares		170
Class B shares		
Cash		237
Tax paid on undistributed income		42
	88	540
Balance at end of year	**$13,275**	$16,830

ELECTROHOME Limited and subsidiaries

CONSOLIDATED BALANCE SHEET — DECEMBER 26, 1975

	Dec. 26 1975	Year ended Dec. 27 1974
	(in thousands)	
Assets		
Current Assets		
Cash		$ 51
Accounts receivable	**$14,840**	16,105
Income taxes recoverable	**191**	1,612
Inventories (note 2)	**25,960**	34,727
Prepaid expenses	**1,279**	1,449
	42,270	53,944
Fixed Assets (note 3)		
Land, buildings, machinery and equipment	**32,902**	30,845
Less accumulated depreciation	**13,631**	11,868
	19,271	18,977
Intangible Assets		
Excess of cost over book value at dates of acquiring shares of subsidiaries, less amortization	**2,322**	2,388
Goodwill	**121**	137
	2,443	2,525
	$63,984	$75,446

Approved by the Board

D.S. Sykes, *Director*

J.A. Pollock, *Director*

Incorporated under the laws of Ontario

	Dec. 26 1975	Year ended Dec. 27 1974
	(in thousands)	
Liabilities		
Current Liabilities		
Bank advances, against which book debts and inventories have been pledged	**$24,096**	$29,326
Accounts payable and accrued liabilities	**9,698**	10,167
Sales taxes payable	**744**	567
Income and other taxes payable	**265**	269
Deferred service contract income	**929**	877
Principal due within one year on long term debt	**746**	639
	36,478	41,845
Long term debt (note 4)	**8,385**	9,118
Deferred income taxes	**524**	2,291
Shareholders' equity		
Capital stock (note 5)		
Authorized		
95,226 Preference shares, par value $100 per share, issuable in series (95,626 shares in 1974)		
3,088,165 Class A shares, participating, without par value (3,121,540 shares in 1974)		
1,910,835 Class B shares, participating, without par value (1,877,460 shares in 1974)		
1,000 Common shares without par value		
Issued		
15,226 5¾ % Cumulative redeemable preference shares, Series A (15,626 shares in 1974)	**1,523**	1,563
1,075,915 Class A shares (1,109,290 shares in 1974)	**1,369**	1,411
1,909,835 Class B shares (1,876,460 shares in 1974)	**2,430**	2,388
	5,322	5,362
Retained earnings	**13,275**	16,830
	18,597	22,192
	$63,984	$75,446

Long term leases (note 7)
Commitments (note 8)
Contingent grants (note 9)
Anti-Inflation legislation (note11)

1. Summary of accounting policies

(a) *Basis of consolidation*

The consolidated financial statements for the year ended December 26, 1975 include the accounts of the following wholly owned subsidiaries:

To December 31, 1975
- Electrohome Communications Limited
- Central Ontario Television Limited

To December 26, 1975
- Flexsteel Industries (Canada), Ltd.
- Hawkesville Lumber Limited
- Electrohome (Malaysia) Sdn. Bhd.
- Electrohome (U.S.A.) Limited

(b) *Inventories*

Raw materials are valued at the lower of cost and replacement cost. Work in process and finished goods are valued at the lower of cost and net realizable value.

(c) *Prepaid Expenses*

Unamortized tooling costs are included in prepaid expenses and are amortized over the production cycle of the product or three years, whichever is shorter.

(d) *Fixed assets*

Fixed assets are valued at cost less accumulated depreciation. Depreciation is provided on a straight-line basis to amortize the cost of the assets over their estimated useful life. Depreciation is not provided on assets under construction nor on purchased production facilities prior to their operation

Government grants related to fixed assets are deducted in determining the cost of the asset and depreciation is calculated on the net cost.

(e) *Intangible assets*

The excess of cost over book value at dates of acquiring shares of subsidiaries is being amortized on a straight-line basis over forty years.

Goodwill, which arose from acquisition of assets of a going concern, is valued at cost less amortization which is provided on a straight-line basis over ten years.

(f) *Deferred service contract income*

Proceeds from the sale of extended warranty contracts are deferred and brought into income over a twelve month period from date of the contract.

(g) *Income taxes*

The companies charge income with income taxes currently payable and also with income taxes deferred under the provisions of the Income Tax Act. Deferred income taxes relate mainly to capital cost allowance deducted for tax purposes in excess of depreciation recorded in the accounts. The accumulated total of such income tax deferments reduced by losses for income tax purposes which may be claimed in future years is reflected in the balance sheet as "Deferred income taxes".

(h) *Pensions*

Unfunded past service pension commitments are charged against income in the year in which they are paid.

(i) *Research and development*

Costs of research and development are charged in full to the year in which they are incurred. Claims for government grants in support of industrial research and development are included in income of the year in which the claim is filed.

(j) *Earnings per share*

Earnings per share are calculated using the weighted average number of class A, class B and common shares outstanding during the year.

2. Inventories

	1975	1974
Raw materials and work in process	$10,994,000	$17,030,000
Finished goods	14,966,000	17,697,000
	$25,960,000	$34,727,000

3. Fixed Assets

	1975			1974
	Cost	Accumulated depreciation	Net	Net
Land	$ 756,000		$ 756,000	$ 675,000
Buildings	13,085,000	$ 2,988,000	10,097,000	10,354,000
Machinery and equipment	17,671,000	9,761,000	7,910,000	7,254,000
Automotive equipment	1,390,000	882,000	508,000	694,000
	$32,902,000	$13,631,000	$19,271,000	$18,977,000

4. Long Term Debt

	1975	1974
8% Mortgage, payable $1,000 monthly with interest and maturing June 23, 1975		$ 6,000
8% Mortgage, payable $500 monthly with interest and maturing January 1, 1978	$ 13,000	19,000
Notes, payable $4,000 annually with interest at prime bank rates and maturing January 2, 1978	11,000	14,000
9¼% Mortgage, payable $1,362 monthly including principal and interest and maturing June 1, 1978	156,000	159,000
14.5% Note, payable $570 monthly with interest and maturing June 30, 1978	14,000	
8% Note, payable $500 monthly with interest and maturing June 3, 1981	73,000	79,000
9¼% Mortgage, payable $4,525 monthly including principal and interest and maturing October 1, 1988	414,000	430,000
8% Secured sinking fund debentures, payable $600,000 annually with interest in each of the years 1975 to 1982 inclusive and $200,000 annually with interest in each of the years 1983 to 1991 inclusive and maturing November 30, 1992	6,200,000	6,800,000
Mortgage with interest payable semi-annually of 9½% on $1,900,000 from December 1, 1975 and 8% on $350,000 from June 1, 1979 and with principal payable annually of $105,500 from 1976 to 1978 inclusive and $128,800 from 1979 to 1993 inclusive and maturing June 1, 1993. Interest was renegotiated to commence December 1, 1975 rather than December 1, 1974.	2,250,000	2,250,000
	9,131,000	9.757,000
Less principal included in current liabilities	746,000	639,000
	$8,385,000	$9,118,000

Principal due in each of the next five years is approximately as follows: 1976, $746,000: 1977, $761,000: 1978, $905,000: 1979, $770,000 and 1980 $761,000.

The sinking fund debentures are secured by a first mortgage on the company's interest in real property and by a general floating charge on all other assets of Electrohome Limited, Flexsteel Industries (Canada), Ltd. and Hawkesville Lumber Limited.

The trustee for the 8% secured sinking fund debenture holders has been notified that the company is in default under two convenants of the trust deed. These covenants relate to the maintenance of working capital and the amount of bank borrowings. The working capital as defined in the trust deed was approximately $5,200,000 below the required amount and bank borrowings were approximately $65,000 in excess of the permitted amount. In acknowledging notice of default, the trustee on January 20, 1976 stated that no action had been taken or was proposed to be taken at that time as a result of the conditions of default.

The amount of $2,250,000 is secured by a mortgage on lands and buildings and by a mortgage debenture on machinery, equipment and other chattels.

5. Capital Stock

(a) Series A preference shares may be redeemed by the corporation at $103 per share.

In accordance with provisions relating to the Series A preference shares, a reserve is to be appropriated as a purchase fund on January 2 in every year to be used to purchase all preference shares available at $100 or less to a total of 400 shares in each calendar year.

During the year the corporation purchased for cancellation 400 shares at an average cost of $65 per share.

(b) Class A and class B shares are convertible one into the other at any time at the option of the holder. By virtue of The Business Corporations Act, upon any such conversion, the number of authorized and outstanding shares of each class affected by such conversion is changed accordingly.

(c) Options to purchase class A shares outstanding at December 26, 1975 were as follows:

Number of shares	Price per share	Date of expiry
12,500	$12.94	July 9, 1976
14,300	6.77	July 15, 1977
15,500	5.11	August 24, 1978

6. Income Taxes

For 1975, certain companies had losses. The tax effect of a portion of such losses has been applied to reduce or eliminate deferred income taxes in those companies. The tax effect of the balance of losses which could not be applied is not recorded in the accounts and amounts to approximately $770,000.

7. Long Term Leases

The corporation is obligated under long term lease agreements to pay annual rentals of approximately $363,000 until December 31, 1978 and $190,000 thereafter until January 31, 1981 and $118,000 thereafter until August 1,

1988. The lease bearing an annual rental of $118,000 until August 1, 1988, may, at the corporation's option, be extended for an additional fifteen years beyond the termination date at an annual rental of $58,000.

8. Commitments

(a) During the year the corporation paid $315,000 ($195,000 in 1974) against its commitments for past service pensions under employees' pension plan agreements. There is no provision in the accounts for the payment of the balance of the commitment, estimated at $2,614,000, which is to be paid within the next fourteen years. The corporation intends to pay this amount within the time permitted or earlier as the cash position of the corporation permits. The related costs will be charged against income in the year of payment.

(b) The corporation has no pension plan (other than Canada Pension Plan) covering directors and senior officers but has entered into employment contracts with senior officers (not including directors as such) providing for continuation of income at specified rates for a period of 10 years following retirement or earlier termination, including death, after age 60. No payment has been made under these contracts to present senior officers as defined by The Business Corporations Act of Ontario. Each contract provides for an amount payable in each year for a ten year period estimated to be approximately 50% of salary at retirement. Because payments under these contracts would not normally commence until periods varying from three to over twenty years it is impracticable to state the amount of payments proposed to be made.

(c) Outstanding letters of credit at December 26, 1975 amounted to $1,731,000.

9. Contingent Grants

Grants receivable under the Regional Development Incentives Act in the amount of $496,000 have not been reflected in the financial statements and are contingent on attaining certain employment levels in Stellarton, Nova Scotia within a period of approximately 24 months, and on additional capital expenditures.

10. Adjustment of prior years' income taxes

Comparative figures have been restated to reflect a recovery of $242,000 of income taxes re-assessed in 1975 for the years 1973 and 1974. Of this amount, $130,000 is applicable to 1974 and has been reflected as an increase in income taxes currently recoverable and as an increase in deferred income taxes for that year. The net incomes reported for 1973 and 1974 remain unchanged.

11. Anti-Inflation Legislation

The companies are subject to the Anti-Inflation Act which provides as from October 14, 1975 for the restraint of profit margins, prices, dividends and compensation in Canada. In the opinion of management, the provisions of the Act have no significant effect on the companies' results of operations for the year ended December 26, 1975.

12. Other statutory information

Aggregate direct remuneration of directors and senior officers (as defined by The Business Corporations Act) amounted to $309,000 ($363,000 in 1974).

Auditors' Report

To the Shareholders of ELECTROHOME Limited

We have examined the consolidated balance sheet of ELECTROHOME Limited as at December 26, 1975 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 26, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kitchener, Ontario
February 27, 1976

THORNE RIDDELL & CO.
Chartered Accountants

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	Dec. 26 1975	Year ended Dec. 27 1974
	(in thousands)	
Working capital derived from		
Operations		$2,702
Increase in long term debt	$ 17	2,250
Sale of fixed assets	67	100
Issue of common shares		4
	84	5,056
Working capital applied to		
Operations	3,247	
Additions to fixed assets	2,280	5,325
Reduction of long term debt	750	639
Dividends including tax paid on undistributed income	88	540
Preference shares purchased for cancellation	26	36
	6,391	6,540
Decrease in working capital	6,307	1,484
Working capital at beginning of year		
As previously reported	11,857	13,471
Adjustment of prior years' income taxes (note 10)	242	112
As restated	12,099	13,583
Working capital at end of year	$ 5,792	$12,099

Working capital derived from (applied to) operations		
Net income (loss)	$(3,481)	$ 147
Items not involving working capital		
Depreciation	1,919	1,708
Amortization of intangible assets	82	82
Deferred income taxes (reduction)	(1,767)	765
Working capital derived from (applied to) operations	$(3,247)	$2,702

TEN YEAR REVIEW

	1975	1974
Results for the year (in thousands)		
Net sales	**87,545**	107,057
Depreciation and amortization	**2,001**	1,790
Interest on long term debt	**601**	660
Income (loss) before income taxes	**(4,815)**	609
Income taxes (reduction)	**(1,334)**	462
Net income (loss)	**(3,481)**	147
Dividends paid (all classes)	**88**	540
Expenditures for fixed assets	**2,280**	5,325
Year end position (in thousands)		
Inventories	**25,960**	34,727
Fixed assets (net)	**19,271**	18,977
Total assets	**63,984**	75,446
Working capital	**5,792**	12,099
Long term debt	**8,385**	9,118
Common* shareholders' equity (book value)	**17,074**	20,629
Per share of common* stock (in dollars)		
Net earnings (loss)**	**(1.20)**	.02
Common* dividends paid	**—**	.15
Common* shareholders' equity (book value)	**5.72**	6.91
Net earnings (loss) as a percentage of common* shareholders' equity	**(20.90)%**	.27%
Other information		
Common* shares outstanding (year end)	**2,985,750**	2,985,750
Number of common* shareholders	**2,662**	2,740
Number of employees (average)	**2,938**	3,900

*In 1974 Common Shares were reclassified into Class A and Class B shares.
**After allowance for preference dividends paid.

1973	1972	1971	1970	1969	1968	1967	1966
107,094	88,007	69,753	51,299	44,499	35,655	30,038	32,594
1,503	1,172	948	700	630	606	619	466
697	467	211	227	244	262	276	262
5,987	8,544	6,263	2,774	3,970	1,769	739	788
2,692	4,072	3,251	1,465	2,117	924	370	292
3,295	4,472	3,013	1,309	1,853	845	361	485
542	544	334	294	296	249	251	300
4,349	5,157	2,206	1,530	915	296	450	2,740
24,959	19,943	11,405	14,266	11,755	8,423	9,726	10,074
15,460	12,583	8,612	7,323	6,561	6,410	6,875	7,061
59,359	47,628	33,135	34,031	25,283	20,906	21,640	23,987
13,471	13,641	8,452	7,200	7,671	6,618	5,460	4,882
7,507	7,993	3,032	3,253	3,520	3,782	4,038	4,083
21,006	18,218	13,975	11,127	7,901	6,301	5,680	5,566
1.07	1.47	.99	.51	.74	.31	.11	.16
.15	.15	.08	.08	.08	.06	.06	.08
7.04	6.11	4.75	3.82	3.34	2.68	2.43	2.38
15.24%	24.01%	20.87%	13.36%	22.08%	11.70%	4.36%	6.66%
2,985,150	2,983,100	2,944,150	2,913,650	2,364,025	2,349,525	2,336,400	2,335,400
2,754	2,296	1,108	1,364	1,247	1,435	1,610	1,669
3,656	3,363	2,487	2,182	2,248	1,665	1,766	1,937

ELECTROHOME Limited

Facilities

Kitchener
Head Office/Electronics Engineering Laboratory/ Electronics Division Plant; Metal Division Plant; Appliance Division Plant; Deilcraft Division Cabinet/Furniture Plant; Central Warehouse; National Service Headquarters

Cambridge
Motor Division Plant/Polyurethane Plant (now Industrial Products Division)

Milverton
Deilcraft Occasional Furniture Plant

New Hamburg
Deilcraft Occasional Furniture Plant

Niagara-on-the-Lake
Lightning Circuits, Printed Circuit Board Plant

Stratford
Flexsteel Upholstered Products Plant

Stellarton, Nova Scotia
Deilcraft Bedroom Suite Plant

Wingham
Deilcraft Chair Plant

Service Branches
Waterloo, Toronto, Barrie, Peterborough, Kingston, Ottawa, Sudbury, Hamilton, London, Winnipeg, Regina, Calgary, Edmonton, Vancouver, Victoria, Prince George, Langley, Niagara Falls, N.Y.

Branches
Toronto, Winnipeg, Calgary, Vancouver

Malaysia
Electronic Sub-Assemblies Plant

England
Commercial Products Sales Office

United States
Commercial Products Sales and Service Office

Broadcast Facilities

Kitchener
Head Office, Studios, Transmitter for CKCO-TV (Channel 13) CFCA-FM Stereo Radio, CKKW-AM Radio

Wiarton
CKCO-TV (Channel 2, Georgian Bay)

Oil Springs
CKCO-TV (Channel 42, Chatham/Sarnia)

Huntsville
CKCO-TV (Channel 11, The Muskokas)

Products

Home Entertainment
Color and B&W Television
Stereo Hi-Fidelity Consoles, Stereo Components and Compacts, Tape Systems,
Four Channel Sound Systems and Adaptors
Speakers, Turntables, Cartridges

Home Furnishings
Deilcraft Tables, Dining Room Suites, Bedroom Suites, Flexsteel Upholstered Designs and Magic Beds

Home Comfort
Fans, Humidifiers, Dehumidifiers and Combinations, Air Purifiers, Air Conditioners, Baseboard Heaters
Electronic Bug Lantern

Commercial Products
Sub-Fractional Horsepower Motors
Packaged Motor Products
Educational TV Receiver/Monitors
Educational Phonographs
Professional Color and B&W Video Monitors
Contract Television - B&W and Color
Contract Designs - Upholstered and Case Goods
Polyurethane Components
Commercial Printed Circuit Boards